

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL ON LESEDI LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Lesedi Local Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages ... to

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the

entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Lesedi Local Municipality for the year ended 30 June 2010 and its financial performance and its cash flows for the year then ended, in all material respects, in accordance with SA Standards of GRAP and in the manner required by the MFMA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

9. As disclosed in note 4 to the financial statements, the corresponding figures for 30 June 2009 were restated as a result of additional information that came to light during 30 June 2010 in the financial statements of Lesedi Local Municipality at, and for the year ended, 30 June 2009.

Material losses

10. As disclosed in note 52 to the financial statements, material losses to the amounts of R9 918 806 (2009: R7 372 435) and R1 480 204 (2009: R2 090 570) were incurred as a result of electricity and water losses respectively.

Additional matters

11. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Unaudited supplementary schedules

12. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the

report on predetermined objectives, compliance with MFMA and financial management (internal control).

Predetermined objectives

Usefulness of reported performance information

The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

14. For the Service Delivery and Infrastructure Development Unit, 100% of the planned and reported targets were not:
 - specific in clearly identifying the nature and the required level of performance;
 - measurable in identifying the required performance;
 - time bound in specifying the time period or deadline for delivery.

Accounting officers and municipal officials have not adhered to their statutory responsibilities

15. Contrary to the requirements of section 72 of the MFMA, the accounting officer did not submit the mid-year assessment report by the 25th January 2010 to Gauteng Department of Finance: Treasury Division. The compliance was completed by the municipality on the 23rd February 2010.

Compliance with laws and regulations

Municipal Finance Management 2003(Act, No. 56 of 2003)

Expenditure was not paid within the parameters set by the applicable legislation

16. Contrary to the requirements of Section 65 (2) (e) of the MFMA, the accounting officer did not take reasonable steps to ensure that certain money owed is paid within 30 days of receiving the relevant invoice or statement.

Financial statements were subject to material misstatements

17. Contrary to the requirements of section 122 (1) of the MFMA, the municipality did not prepare financial statements in accordance with the legislative requirements as the financial statements submitted for audit on 30 August 2010 did not fairly present the state of affairs of the municipality as there were material amendments made to assets, payables and investment property arising from the audit.

Municipality did not obtain the licence to operate a landfill site

18. Contrary to the requirements of section 20(1) of the Environmental Conservation Amendment Act, 2003 as amended by Government Gazette No 26023, the municipality operated the landfill site without obtaining the necessary licence.

INTERNAL CONTROL

19. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, but not for the purpose of expressing an opinion on the effectiveness of internal control.
20. The matters reported below are limited to the findings on compliance with laws and regulations.

- **Leadership**

- Oversight responsibility*

- The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

- The assessment of the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan were only submitted by the municipality on 23rd February 2010.
 - The municipality has operated a landfill site without obtaining the necessary licence. The landfill site is in its second of a four year closure period. Due to the legislated process to establish a new site, taking about four years to complete, this is the required close down period of the old site.

- **Financial and performance management**

- Quality, reliable monthly financial statements and management information*

- The financial statements were subject to material amendments resulting from the audit.

- The financial statements and other information to be included in the annual report were not adequately reviewed for completeness and accuracy prior to submission for audit.

Systems are not appropriate over compliance to with MFMA with regard to payment of certain suppliers within 30 days from receipt of the invoice

- **Governance**

No matters to be reported.

Auditor - General

Johannesburg

29 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

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